

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**  
**DOCKET NO. 2020-225-WS**

IN RE: Joint Application for Approval of the Sale of  
 Assets and Transfer of Facilities, Territory,  
 and Certificate of Public Convenience and  
 Necessity from CUC, Incorporated to South  
 Carolina Water Utilities-CUC, Incorporated

**STIPULATION**

This Stipulation is made by and between the South Carolina Office of Regulatory Staff (“ORS”), CUC, Inc. (“CUC”), South Carolina Water Utilities-CUC, Inc. (“SCWU-CUC”), (collectively referred to as the “Parties” or sometimes individually as “Party”).

WHEREAS, CUC owns and operates a water and wastewater utility in Beaufort County, South Carolina, and is a public utility as defined in S.C. Code Ann. § 58-5-10(4);

WHEREAS, SCWU-CUC is a Delaware corporation authorized to do business in South Carolina. SCWU-CUC is a wholly owned subsidiary of SouthWest Water Company, a Delaware limited liability company;

WHEREAS, on September 4, 2020, CUC and SCWU-CUC filed the Joint Application for Approval of the Sale of Assets and Transfer of Facilities, Territory, and Certificate of Public Convenience and Necessity from CUC to SCWU-CUC, (“Application”) in the above-captioned docket;

WHEREAS, the Application requests, among other things, approval of the asset purchase agreement between CUC and SCWU-CUC dated September 1, 2020 (“Agreement”);

WHEREAS; under the Agreement, subject to approval by the Public Service Commission of South Carolina (“Commission”), SCWU-CUC will acquire the water and sewer systems,

service territories, personal and business property, real property, easements, governmental authorizations (including the certificates of public convenience and necessity issued to CUC by the Commission, National Pollutant Discharge Elimination System permits, and other permits), and certain other property necessary for the operation of the CUC water and sewer systems;

WHEREAS, CUC and SCWU-CUC had extensive discussions with the Callawassie Island Property Owners Association (“CIPOA”) and the Spring Island Property Owners Association (“SIPOA”), both of which were represented by counsel, regarding the Agreement, and

WHEREAS, as a result of those discussions, SCWU-CUC agreed, among other things, not to apply for a base rate increase before January 1, 2025, and

WHEREAS, CIPOA and SIPOA informed the Commission they did not object to the Agreement in letters that were filed with the Commission on September 18, 2020, and

WHEREAS, ORS is charged by law with the duty to represent the public interest of South Carolina pursuant to S.C. Code § 58-4-10(B);

WHEREAS, ORS conducted an examination of the Application and its exhibits and conducted discovery relating to the Application and Agreement, and based on its examination, does not object to the Application subject to the conditions enumerated below;

WHEREAS, the Parties engaged in discussions to determine if a stipulation would be in their best interests and, in the case of ORS, in the public interest; and,

WHEREAS, following those discussions, the Parties determined that their interests, and ORS determined that the public interest, would be best served by stipulating to an agreement regarding issues pending in the above-captioned case under the terms and conditions set forth herein;

### **A. STIPULATION OF AGREEMENT**

1. SCWU-CUC will not recover from its customers, in this or any future proceeding, any acquisition premium (goodwill) costs or transaction costs associated with the sale of assets, facilities, territories and certificates of public convenience and necessity, or any other costs incurred in connection with the consummation of the Agreement or the process of developing and obtaining approval of the Application. SCWU-CUC will not record any portion of the purchase price allocation adjustments associated with the sale on its books, except as required by Generally Accepted Accounting Principles. Neither acquisition premium (goodwill) costs nor transaction costs related to this transaction will be included in the cost of capital calculation for or charged to SCWU-CUC or any other current or future regulated South Carolina subsidiary of its parent company, SouthWest Water Company ("SouthWest"). When Generally Accepted Accounting Principles require such costs to be recorded on SCWU-CUC books, they will be reflected below-the-line to ensure they are excluded from rate recovery.

2. Transition costs may be evaluated in a general rate proceeding and ORS reserves its right to review and make recommendations related to the expenses in future proceedings.

3. The following definitions shall apply:

- a. Goodwill. Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. The terms goodwill and acquisition premium are used interchangeably for ratemaking purposes. Goodwill will not be determined until the closing date of the transaction; at which time it will be based on the fair value of CUC's identifiable assets and liabilities.

- b. Transaction costs. Transaction costs include any costs incurred in connection with completion of the acquisition of CUC by SCWU-CUC including costs of obtaining all necessary regulatory approvals for the sale and any payments identified in the Agreement. Examples of such costs include, but are not limited to, legal fees and expenses, regulatory filing fees, costs of developing and pursuing regulatory approvals, accounting fees, interest, prepayment penalties, financial advisory fees, and banking fees.
  - c. Transition costs. Transition costs are generally costs arising from the activities necessary to integrate the purchased entity into the acquiring entity. Examples of transition costs include those related to, but not limited to, the integration of financial, IT, human resource, billing, accounting, and telecommunications systems and processes. Other examples of costs could include, but are not limited to, severance payments to employees and costs related to changes to signage, the cost of transitioning employees to post-merger employee benefit plans, and termination of any duplicative leases, contracts, operations, etc.
4. Should SCWU-CUC seek recovery through rates any expenses related to the employment of the current shareholders of CUC in any future proceeding, ORS reserves its right to review and make recommendations related to the expenses in those future proceedings.
5. The Parties agree the SouthWest Cost Allocation Manual will be reviewed for prudence in a future proceeding, and ORS is not precluded from addressing the reasonableness of the SouthWest Cost Allocation Manual in any future proceeding for any current or future regulated SouthWest subsidiary.

6. SCWU-CUC shall not lend cash or other capital directly to SouthWest or any other subsidiary entity of SouthWest except for routine and prudent cash management practices.in accordance with Appendix A to this Stipulation. .

7. SCWU-CUC shall not be the guarantor of any debt of SouthWest or any other SouthWest affiliate, unless the debt is incurred for purposes specific to the SCWU-CUC's system and operations.

8. SCWU-CUC will provide customers with the service enhancements listed in Item 12 of the Application within one hundred twenty (120) days of the acquisition closing. These service enhancements include online billing, a company website, and the option of paying with a credit card.

9. SCWU-CUC will provide customers with the refunds related to the 2017 Tax Cuts and Jobs Act listed in Item No. 26 of the Agreement and ordered by the Public Service Commission of South Carolina ("Commission") in Docket No. 2019-64-WS, Order No. 2020-94, issued on January 30, 2020 in the amount of \$33,508 within two (2) billing cycles of the closing of the acquisition. In addition, SCWU-CUC will notify both the Commission and ORS once the refunds to customers have been issued.

10. SCWU-CUC will discontinue the practice of billing customers Availability Fees. ORS reserves its right to review and make recommendations related to the accounting treatment related to Availability Fees in future proceedings. The Commission in Order No. 2020-94 ordered that "CUC shall eliminate Availability Fees as soon as practicable." In addition, CUC issued notice to customers, filed with the Commission on February 6, 2020, which stated that CUC would stop billing Availability Fees in March 2020.

11. The due date reflected on SCWU-CUC bills shall remain the 25th day of the month, until such time as approved otherwise by the Commission, if requested by SCWU-CUC.

12. SCWU-CUC shall file performance bonds in the amounts of \$350,000 for sewer operations and \$350,000 for water operations in compliance with S.C. Code Ann. § 58-5-720.

13. SCWU-CUC will maintain its customer service at no less than current levels and monitor service and performance following the sale to ensure that customer service levels do not degrade for reasons attributable to the sale.

14. SCWU-CUC will maintain the environmental monitoring, operations and maintenance programs at or above current levels.

**B. REMAINING STIPULATION TERMS AND CONDITIONS**

15. The Parties stipulate and agree that ORS does not object to the Joint Applicants' request for Commission approval of the Agreement, for permission for SCWU-CUC to operate the water and sewer systems currently owned and operated by CUC under the schedules of rates and charges currently approved by the Commission, and to the Joint Applicants' request for expedited approval of the Application and waiver of a formal hearing;

16. The Parties agree that this Stipulation is reasonable, is in the public interest, and is in accordance with law and regulatory policy. This Stipulation in no way constitutes a waiver or acceptance of the position of either of the Parties in any future proceeding. This Stipulation does not establish any precedent with respect to the issues resolved herein and in no way precludes any Party herein from advocating an alternative position in any future proceeding.

17. The Parties agree to cooperate in good faith with one another in recommending and advocating to the Commission that this Stipulation be accepted and approved by the Commission in its entirety as a fair and reasonable resolution of certain issues currently pending in the above-

captioned proceeding and detailed herein, and to take no action inconsistent with its adoption by the Commission. The Parties agree to use their best efforts to defend and support any Commission order issued approving this Stipulation and the terms and conditions contained herein.

18. If the Commission declines to approve this Stipulation in its entirety, then any Party may withdraw from the Stipulation without penalty or obligation.

19. This Stipulation shall be interpreted according to South Carolina law.

20. The Parties represent that the terms of this Stipulation are based upon full and accurate information known as of the date this Stipulation is executed. If, after execution, either Party is made aware of information that conflicts, nullifies, or is otherwise materially different than that information upon which this Stipulation is based, either Party may withdraw from the Stipulation with written notice to the other Party.

21. The above terms and conditions fully represent the agreement of the Parties hereto. Therefore, each Party acknowledges its consent and agreement to this Stipulation, by affixing its signature or by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any Party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Stipulation.

**[PARTY SIGNATURES TO FOLLOW ON SEPARATE PAGES]**

**Representing the South Carolina Office of Regulatory Staff**

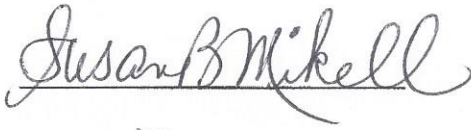
A handwritten signature in black ink, appearing to read "Jeffrey M. Nelson", is written over a horizontal line.

January 12, 2021

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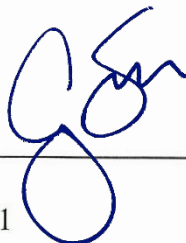
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January 15, 2021

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January 15, 2021

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Appendix A  
Cash Management Services  
As of January 14, 2021

**Background:**

**SouthWest Water Company** (“SWWC”) supports each of its operating utilities by providing an array of centralized cash management services as more fully described in this document. The purposes of this centralization is to promote efficient operations at each business, ensure each operating business has sufficient cash to fund operating and capital requirements, employ high quality practices and allow the utilities to benefit from certain economies of scale, which are passed on to customers of the utilities.

This document serves as a confidential description of SWWC’s cash management services and practices effective as of the date first written above. Changes may be made periodically that are consistent with changes in banking services, pricing, and/or in the interests of efficient practice while always funding the operating and capital requirements and maintaining highly accurate books and records for each utility.

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**Banking, Zero Balance Accounts, Accounting Entries**

- SWWC manages the banking relationships for SWWC and all operating utilities.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

- [REDACTED]

[REDACTED]

Banking: Wire Transfer and ACH Payments

[REDACTED]

Accounts Payable, Credit Card, Fuel Card

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

#### Payroll

[REDACTED]

#### Surety bonds

- SWWC maintains a centralized relationship with surety brokers and surety companies that periodically may issue a surety bond in support of local utility operations.
- South Carolina PSC currently is the beneficiary on several such surety bonds.
- SWWC provides credit support to these bonds which is a necessary inducement – in the alternative each utility may be required to provide cash collateral to the surety.

#### Banking: Online Bill Pay, Credit Card and ACH File Transmissions (customer payments)

- SWWC maintains a robust online platform for electronic bill presentment and payment. Using this website, a utility customer may view their bill, see usage history and initiate payments via either (a) credit card or (b) ACH payment.

[REDACTED]

#### Intercompany advances

[REDACTED]

### Utility and non-utility Operations in SouthWest Water Company

As more fully described below, a very small portion of SouthWest's business is involved in 'non-utility' lines of business. At a high level, these operations represent approximately █% of SouthWest's revenues, █% of its Earnings before Interest, Taxes, Depreciation and Amortization ('EBITDA') and █% of its assets. In addition, those businesses which are considered 'non-utilities' are supportive of SouthWest's long term strategy to grow its water and wastewater utility businesses.

There are █ that we believe fit into this category: █

█ provides utility expertise to operate and maintain water and wastewater districts and municipalities on a contractual basis to █ water and wastewater utilities in Alabama. The contracts obligate SouthWest to provide water and/or wastewater operations, inspections, equipment maintenance, and/or utility customer service including call center, dispatch, billing and collection services. In short, these are operations management and/or project management related services. █ incurs no significant capital investment requirements or financial risks under these contracts.

As of December 31, 2020, there are █ service contracts. Estimated annual revenues are \$█ million generating \$█ million in EBITDA with assets of about \$█ million.

█ has two separate █ contracts:

- █ Supplier of potable water to █ Municipal Utility Districts (MUDs) in █, Texas (█) with approximately █ meter equivalents, with a remaining contract term of █ renewable for another █ years.

- [REDACTED] Supplier of raw water to the City of [REDACTED] Texas for about [REDACTED] meter equivalents through [REDACTED].

Estimated annual revenues are \$[REDACTED] million generating \$[REDACTED] million in EBITDA with assets of about \$[REDACTED] million.

[REDACTED] provides [REDACTED] for commercial and residential customers in the [REDACTED] Oregon area.

Estimated annual revenues are \$[REDACTED] million generating [REDACTED] million in EBITDA with assets of about \$[REDACTED] million. Of note, the largest customer of [REDACTED], another SouthWest Water Company subsidiary.

#### **Ni SC Environmental Services, Inc.**

Ni SC Environmental Services, Inc. operates a septage receiving station that takes wastewater and solids from septic tanks and other sources in the Columbia, SC area.

Estimated annual revenues are \$[REDACTED] thousand generating \$[REDACTED] thousand in EBITDA with assets of about \$[REDACTED].

#### **1710 Woodcreek Farms Road, Inc.**

This company owns the office building at 1710 Woodcreek Farms Road in Elgin, SC. The space in this building is leased to the Ni SC operating utilities (PUI and PWR); total revenue of \$[REDACTED] and EBITDA of \$[REDACTED].

#### **Ni America Operating, Inc.**

As part of the acquisition of Ni America's operating companies in September 2020, SWWC acquired the equity interests in multiple legal entities, including "Ni America Operating, Inc." This entity provides administrative support services to the other Ni America businesses, including Palmetto Utilities, and Palmetto Wastewater Reclamation. This entity does not incur any significant capital expenditures or operating risks.

[REDACTED]

Shared services are provided by SouthWest Water Company corporate functions of management, legal, information technology, finance, human resources, and facilities to all its subsidiaries. Costs associated with these shared services are allocated to SouthWest Water Company's subsidiaries using a three-factor methodology. SouthWest Water Company utilizes the factors of gross plant, operating expenses, and payroll expenses, all equally weighted.

In conclusion, SouthWest is principally involved in the ownership and management of operating water and wastewater utilities. It should be noted that currently 1) over 96% of SouthWest's business is considered in the 'utility' business, 2) the businesses described herein as 'non-utility' operations are low risk businesses in support of utility operations, and 3) the businesses described herein as 'non-utility' operations represent a very small fraction of SouthWest's total operations and do not pose a financial threat to SouthWest's utility operations.

As SouthWest continues to grow through acquisitions and organically, the focus of the company will remain on owned water and wastewater utilities. Accordingly, SouthWest anticipates that 'non-utility' operations will not exceed 25% of its revenue in the future.

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